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The Reality of the Angolan Accounting Regulation and Financial Reporting System

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Abstract

This Work Project depicts the reality of accounting regulation and financial reporting in Angola by describing the accounting system through an analysis of characteristics for international comparison and thereafter classifying it comparably to worldwide accounting systems. Based on seven unstructured interviews and the case study research methodology, the findings suggest that the accounting system is heavily state-regulated and influenced, although a shift toward an economic needs based system is emerging. At this point, Angola's accounting system is classified as a Continental European System per Nobes and Parkers (2008) two-group classification.

Key words: Financial reporting; Accounting system; Continental European system; Angola.

1. Introduction

The relevance of accounting research in developing countries has often been overlooked. Although it does not solve poverty, accounting is an essential cog in development mechanisms as it provides information for decisions, planning and control (Hopper, Soobaroyen and Lassou 2017). This is critical in Angola where the majority of the population lives without access to basic services. For the purpose of this Work Project, 'Accounting system' is the interdependent group of bodies that govern the enforcement of accounting rules and financial reporting practices applied by a particular company, in a particular country, for its annual report.

Angola is the third-largest economy¹ in Sub-Saharan Africa (CIA 2017). Despite the collapse in oil prices, growth rates are expected to remain at 3% between 2018 and 2020 (Santander Trade 2017). With oil production making up for over 90% of Angola's GDP, Angola's *national oil company* (NOC), Sonangol, has been the largest contributor to GDP and tax revenue, thus exercising a significant weight in government decisions (AfDB, OECD and UNDP 2017).

¹ Prior to the oil collapse, Angola was one of the fastest growing economies in the world, having experienced growth rates of 17% per year from 2004 to 2008 and 12.6% from 2006 to 2010 (African Development Bank 2017)

Angola's cultural and economic development was largely propelled by Portugal's colonial claim to the region (1885-1975) and the prevalence of the Portuguese language. Influences are also felt from the USSR and Cuba, who contributed with military support to the Popular Movement for the Liberation of Angola (*Movimento Popular de Libertação de Angola*, MPLA), the political group who, in 2002, came out victorious in Angola's civil war for Luanda² (Ferreira 1974).

A sound financial system, supported by high-quality accounting and auditing standards and backed by a solid regulatory, governance and ethical framework is a prerequisite for economic development (ACCA 2012). In a country where these conditions are not prevalent, accounting research is crucial to provide information on existent data gaps and increase the confidence of prospective investors. In 2016, Angola ranked third in the top destinations for Foreign Direct Investment (FDI) in Africa, receiving a total of \$4.4 billion USD distributed through the oil, gas, communication and transportation sectors (AfDB, OECD and UNDP 2017). Despite its underdeveloped financial system and limited information, Santander Bank's trade portal (2017) recognizes Angola as the number one destination of FDI in Africa and 20th worldwide, with China, United States, France and the Netherlands accounting for the majority of investments.

Angola faces a pressing need for accounting information to meet development challenges such as economic diversification, rebuilding infrastructure post war, improving governance and financial management systems and increasing its human development index (The World Bank 2017).

This Work Project addresses risk management concerns of current and prospective investors by filling the existing knowledge gap on the reality of accounting regulation and financial reporting in Angola, facilitating economic development. It aims at characterizing the accounting system and subsequently classifying for international comparison. It responds to the recent and urgent call for

² Angola's capital city.

empirical research papers on accounting challenges in distinct African settings from Elsevier Journals (Lassou, Hopper and Ntim 2017) and arises from Kolk and River-Santos (2016) claim of untapped potential for Africa-based research. They join additional scholars such as Kiggundu & Lamont (2015), Walsh (2015), Zoogah (2008), Zoogah & Nkomo (2013) and Zoogah et al. (2015) in calling researchers to pursue these opportunities to expand research of accounting in Africa.

This Work Project proceeds as follows: Section 2 details the theoretical framework applied in characterizing the system of accounting regulation and financial reporting in Angola. Section 3 reviews the previous research conducted in the area of study. Section 4 outlines the methodology, data and research questions to be answered. Section 5 discusses the results, analyzed through a series of factors that will allow for the characterization of Angola's accounting regulation and financial reporting system. Lastly, section 6 concludes this research paper, providing an overview of the findings, its contribution, limitations faced and suggestions for further research.

2. Theoretical Framework

This section presents the theoretical underpinnings of this study and identifies the framework used to characterize and classify Angola's accounting system in contrast to worldwide systems.

Studies into accounting classification date back to 1911, when Hatfield first identified three distinct groups of accounting systems - France and Germany, the U.K, and the U.S. Further studies of this nature were not given much thought until the 1960's when Mueller (1967) proposed a four-group classification based on the belief that accounting rules are the product of a country's economic, governmental and business factors thus, every country should have their own set of need-based rules and accordingly, their own accounting system. Mueller's research originated the classification of accounting systems by means of deductive analysis, classifying financial reporting systems based on the influence of environmental factors in the development of such systems. Mueller's four groups of systems were summarized as follows: the *macroeconomic* approach – to support economic policy;

the *microeconomic* approach – to reflect economic reality, the *independent discipline* approach- adapts to rising circumstances; and *uniform* approach- for government control.

In 1977, the American Accounting Association (AAA) concluded that accounting systems are influenced by environmental characteristics and can be classified by comparing empirical data with an established set of ‘morphologies’ such as the political and economic system, stage of economic development, objective of financial reporting, source of authority for standards and education, training and licensing³. The result was the inference that accounting systems are developed through cultural influences from five ‘zones of influence’: the British, French-Spanish-Portuguese, German-Dutch, US and Communist (AAA, 1977).

Nobes (1983) built off of Mueller and the AAA, suggesting the characterization of accounting systems based on nine discriminating economic, political and cultural factors⁴. Through arithmetical and computer-based tests run on data factors of 14 countries, results produced a strong support for a ‘micro/macro’ split leading to a two-group classification: the Anglo-Saxon (AS) systems, with robust professional accounting bodies, strong in equity and commercially driven and the Continental Europeans (CE) systems, with an underdeveloped professional accounting body, weak in equity, government driven and tax-dominated⁵. Nobes (1983) also identifies the legal system as a factor to characterize accounting regulation. This is summarized in Nobes and Parker (2008) as they distinguish two systems: Common law (case law) and Codified Roman law (civil law). Common law (predominant in AS systems) provides answers to specific cases as they arise, thus accounting rules are developed by accountants during the course of accounting practice and subsequently recommended as applicable reporting norms. Codified Roman law (predominant in CE systems) is identified in a system whose rules are linked to ideals of justice and morality and thus are established

³ See Appendix 1 for further details on the morphology classification.

⁴ See Appendix 2 for Nobes nine discriminating factors.

⁵ See Appendix 3 for further discrimination of Anglo-Saxon versus Continental European systems.

through past decisions. In these countries, commercial law establishes rules for accounting and financial reporting.

Nobes (2008) updated his classification⁶ of the 14 countries into the two-groups to account for International Financial Reporting Standards (IFRS) and the formation of the European Union⁷. Choi and Meek (2011, 31) base their research on the previous work of Hofstede (1980), Nobes (1983), Gray (1988) and Nobes (1998), and conclude that a nation's accounting standards and practices arise from a "complex interaction of economic, historical, institutional and cultural factors" such as sources of finance, the legal system, taxation, political and economic ties, level of economic development, education level and culture. More recently, Nobes (2011) revisited the 1983 two-group classification, to know if it persisted in light of growing IFRS practices. He concluded that accounting systems arise from long-lasting national influences which are resistant to attempts at harmonization, thus the two-group classification remains unaffected by IFRS.

Accounting classifications can be conducted in two ways: judgmental and empirical, where judgmental relies on knowledge, intuition and experience, and empirical relies on statistical methods. This Work Project identifies and analyzes the influential factors in Angola's accounting regulation and financial reporting system and subsequently apply Nobes (1998) judgmental criteria to classify the system within Nobes' (2008) two-group classification.

3. Literature Review

Research papers about accounting and financial reporting in Angola are scarce. They are mostly normative, consisting of accounting and taxation regulation, descriptions thereof, and instructions for application posted by the governing bodies of Angola. Little is known about how accounting is used in these settings [Africa], to what ends, how and why it emerged and its relation to indigenous

⁶ See Appendix 4 for a summary of Nobes (1998) judgmental criteria for classification.

⁷ See Appendix 5 for updated results.

systems (Lassou, Hopper and Ntim 2017). The following section reviews the limited normative and empirical literature relevant to this study.

Santos (2005) studied conceptual frameworks of accounting regulation in Portuguese speaking countries, including Angola, and concluded their accounting regulation to be highly influenced by government and fiscal policy, with taxation and accountancy concepts adopted from Portugal. Cruz (2011) compares the General Angolan Accounting Plan (*Plano Geral de Contabilidade Angolana*, PGCA) and the Portuguese Accounting Normalization System (*Sistema de Normalização Contabilística*, SNC) and concludes that the Angolan accounting system has Latin characteristics, indicating the influence of taxation on accounting. He classifies it as a CE system and emphasizes the importance of a capital market in economic development. To the best of our knowledge, only Cabrito and Ferreira (2008) researched about accounting regulation and the financial reporting system of non-financial institutions in Angola using Nobes framework for classification and the case study methodology. At the time, the authors classified Angola, alongside Portugal, in Nobes CE systems. Nevertheless, the reality of Angola's accounting system has drastically changed over the past ten years, warranting the need for updated information. Lapi (2015) studied the adoption of IAS/ IFRS in Angola's banking sector and concluded that to achieve harmonization, national institutions responsible for control and regulation of the accounting system must undergo changes such as an updated PGCA - to adapt its rules to unaddressed events - and greater authority and participation of accounting professionals and auditors in the development of accounting rules.

This Work Project will provide a characterization of the Angolan accounting system, identifying the influencers of accounting regulation and its application in financial reporting. Through classification, it also serves to map Angola's progress toward international harmonization. The paper fills the void of accounting research in Africa, identified by Dr. Philippe Lassou (2017), editor of the African Accounting and Development issue in the *Critical Perspectives on Accounting Journal*,

and other scholars previously mentioned. It answers the call from investors for more reliable, transparent and comparable financial reporting to increase FDI and boost the economy.

4. Methodology

Using the case study method, this paper will characterize the system of accounting regulation and financial reporting in Angola by first understanding context in which it is situated and subsequently analyzing the factors that influence its development. It then assumes a deductive approach, in applying analyzed results to classify the system in Nobes (2008) two-groups.

In characterizing the system, the aim is to respond to the following research questions (RQ):

RQ 1: Who are the main actors of the Angolan accounting system?

RQ 2: What are the roles of these actors within the Angolan accounting system?

RQ 3: Which are the accounting rules in force in Angola and to whom do they apply?

RQ 4: How is accounting regulation endorsed in Angola?

RQ 5: Which mechanisms are used to enforce the application of accounting regulation?

RQ 6: Why is Angola's accounting system underdeveloped and what hinders its progression?

In formulating a response, this Work Project will explore the context of political-economic ties and education levels and analyze the following influencers of accounting systems: Taxation, the accounting and audit profession, the legal system, sources of finance and international influences. The case study method was selected for its ability to address descriptive or explanatory questions and produce a first-hand understanding of people and events (Yin 2015). “It is an empirical inquiry that investigates a contemporary phenomenon within a real-life context especially when, the boundaries between phenomenon and context are not clearly evident” (Yin 2014, 16).

This Work Project relies on both primary and secondary data. Under the case study method, theoretical perspectives are defined based on secondary research available in published laws and previous research and triangulated with the primary data collected through interviews (Yin 2015). The triangulation method allows the researcher to both describe and evaluate the classification of

Angola's accounting system within Nobes (2008) two-groups, by providing the means to "describe an intervention and the real-life context in which it occurred" (Yin 2014, 16). Further, the case study method can be used to explain the causal links in real-life interventions that are too complex for survey or experimental strategies (Yin 2014). For this reason, unstructured interviews were conducted to understand the impact of each influential factor in the characterization of accounting regulation and financial reporting in Angola. Fife (2005) discusses unstructured interviews in the context of research for developing countries, stating that "they should allow us to discover not only new areas for study but also to confirm whether or not we have been correct in our assumptions." Unstructured interviews were chosen as they allow the researcher to adapt and change questions depending on the information discovered during the interview, turning the session into an exploratory conversation. Accordingly, no hypothesis is developed beforehand as the interviews serve for theory development rather than theory testing (Zhang and Wildemuth 2016). In describing Angola's accounting system, this Work Project aims at identifying existing and emergent themes to generate an illustrative model of the systems' functionality and the official and unofficial factors influencing its development.

Prior to conducting the interviews, a unifying theme for each level of analysis was identified based on secondary data available from previous researchers, historical sources and political and economic literature. Previous research from Cabrito and Ferreira (2008), Cruz (2011) and Lapi (2015) provided an analysis of accounting regulation and financial reporting, within different scopes and time lapses. Historical data was retrieved from online sources such as reports produced by financial institutions (African Development Bank, Santander, National Bank of Angola), government entities such as the Central Intelligence Agency (CIA) and newspaper articles and encyclopedia Britannica. Lastly, laws, decrees and public announcements were retrieved online, from the webpages of the

Angolan government⁸. This information served as the foundation for the questions developed to guide the unstructured interviews⁹ which were designed as open-ended to allow free flow of dialog and full exploration of the levels of analysis.

For this report, seven candidates were interviewed - four auditors of various ranks, from Big 4 firms in Lisbon and Luanda, an accountant, a professor of accounting and a business owner. All candidates have a minimum experience of two years in Angola, where five candidates are current or previous Portuguese expatriates, one is a native Angolan always having resided in Angola, and the last was a fly-in consultant during the drafting and implementation of the PGCA¹⁰. Interviews were conducted over Skype with questions stated in English. Some respondents replied in Portuguese by preference and these results were later translated by the researcher to English. An important aspect in deciphering the results of the unstructured interview, is the ability of the interviewer to understand the interviewee's language and its meanings in the specific cultural context of the research setting (Fife 2005). During the course of this investigation, the researcher was flown to Luanda, Angola, an experience¹¹ that serves to provide a more precise interpretation of the data collected, producing new data and understandings of its social reality.

5. Results

The following section establishes the context in which the Angolan accounting system is situated. It then analyzes its influential factors and classifies them using Nobes' criteria¹². The outcome is a model to depict the reality of its operation and respond to research questions.

⁸ See Appendix 6 for a list of consulted regulations.

⁹ See Appendix 7 for the questions used to guide interviews.

¹⁰ See Appendix 8 for a summary of interview specifics and candidate information.

¹¹ The researcher is currently an auditor at Ernst & Young and during the course of this investigation, was flown to Luanda, Angola to partake in the audit of a private company, wholly owned by the Government of Angola, with profit of approximately US\$ 5m for the year ended 2016. The project lasted from October 23, 2017 to November 3, 2017.

¹² See Appendix 4 for Nobes (1998) judgmental classification criteria.

5.1 Contextual Elements

Political and economic ties

Despite having experienced a period of double digit economic growth, Angola's oil-dominated export economy has come to decline, experiencing growth rates of 4.7% over 2011-2015 (African Development Bank 2017). In light of the impact of a collapse in the oil industry, on the Angolan economy, the industry indirectly influences decisions taken by the government. Having been the government's main source of revenue for over 40 years, Sonangol is of extreme significance to Angola's economy. André, associate partner of assurance at EY Lisbon, argues that *"when you have this sort of dependency, the needs of the company, become the needs of the state."* Accordingly, under the former President's control, Sonangol has been allowed to develop political and economic influence beyond its official duties as a NOC, operating as a form of 'shadow government', where many government decisions are taken in favour of its business needs (SG Analysis 2017). Pratas, an experienced senior of assurance at EY Luanda, informs that the players of the oil and gas industry put pressure on both Sonangol as a NOC and the Ministry of Finance (MOF) to adopt IFRS because of the need to report to international counterparts and obtain international financing. Pratas comments on the recently elected government stating, *"While the old government was very nationalistic, focusing on Angola's needs and suppressing all international demands, the newly elected government seems to be more open to hearing out the needs of foreign companies."* She is supported by Santos, business-owner and Angola native, who states that *"one of the newly elected governments' election promises is the implementation of International Federation of Accountants (IFAC) rules to all companies operating in Angola."*

Due to political and economic forces, Angola shows signs of a shift from a government-driven accounting system to one that adapts to business needs. The influence of commerce over the accounting system is further seen in the creation of the Institute for Public Sector Enterprises

(Instituto para o Sector Empresarial Público, ISEP) which functions as an extension of the government and an indirect administrative body of the economic sector. As identified in Presidential Decree No. 164/15, ISEP's purpose is to transform public sector entities into effective instruments of economic diversification of Angola's economy. With this aim, one of ISEP's main roles is to provide support to public sector entities in the regulation and monitoring of their managements' results by the government. ISEP functions as the link between business and government, identifying the need for and proposing changes to accounting regulation, as new events and transactions occur in the course of business. To achieve this, Presidential Decree No. 401/15 orders public sector entities to submit quarterly financial statements prepared in accordance to PGCA, to ISEP no later than 15 days preceding the quarter end. Pratas informs that although regulations for ISEP exist, enforcement of sanctions for non-compliant entities are unheard of. Further, she is unaware of any of ISEP's work, implying it to be a dormant body that is still in development. Interestingly, no other interviewee identified ISEP as an actor in the accounting system, producing the conclusion that the entity's accounting functions are not operating as the Presidential Decree had intended. Based on the perception of interviewees, the change in government and push for economic diversification may call for a more active participation of ISEP. The political-economic context in Angola shows signs of a slight shift from a CE system, that functions as an extension of government to an AG system that adapts to commercial needs.

Education level

History plays a significant role in the education system and level of education of the people of Angola. After achieving independence from Portugal, Angola was left with an underqualified labour force as Portuguese colonial policy did not favour education for the ordinary African citizens of Angola (Thorton and Clarence-Smith 2017). Following the civil war ended in 2002, education conditions declined dramatically as buildings were left in ruins and there was a severe shortage of

teachers and teaching materials. Many Angolans were forced to pursue post-secondary education abroad, in Cuba and the Soviet Union, the countries that had supported the winning political party, the MPLA, during the civil war (Thorton and Clarence-Smith 2017). According to Simões, an assurance Manager from EY, who acted as a consultant to the MOF during the development of the PGCA in Angola, Angolans that obtained their bachelor's degrees in foreign countries such as Portugal and the former USSR would return to Angola to occupy the roles of C-level executives while, those who studied in Angola during the post-war era obtained roles in accounting and financial statement preparation. Almeida, who has given accounting lectures and professional training in Angola, informs that accounting degrees in Angola have only been in existence for approximately four to five years. Prior to this, accounting professionals were trained to learn accounting for taxation purposes thus, universities have difficulties hiring qualified professors and accounting lectures are of poor quality. Pratas adds that students that complete a university degree in Angola are not prepared for the workforce because the education system is not demanding nor of quality. André agrees, *"universities are still looking to produce quantity and not quality."*

André and Guerreiro, partner of Assurance at EY Luanda, argue that a barrier to the implementation of IFRS and development of the accounting system in Angola is the lack of proficient accountants. Accounting professionals in Angola experience difficulties in understanding basic accounting rules such as revenue recognition and amortization, due to the lack of quality education, and in turn there are many mistakes made in financial reporting. An example is provided by Bicho, manager of financial reporting at EY Luanda, who says she:

"Often finds improper treatment of increases to shareholders equity because the staff posting these transactions is unaware of the proper procedures and do not understand the accounting rules associated. Thus, when a company's bookkeeping is not prepared by a big accounting or audit firm, it is extremely difficult to validate posted transactions because of the lack of proper support documentation".

Santos also identifies this issue in c-level management and government staff stating that *“the main task for Angola’s future OCPCA and government is to have all company owners aware that they need to do proper bookkeeping and that, to do that, they need to produce proper documents.”*

André mentions that there is an increase in the quality of people graduating from Angolan universities with management and accounting degrees today, as compared to people in the 30’s plus age bracket. Santos agrees that the younger generation - under 35 years- is better prepared for the adoption international standards than the older generation. André explains that Angola is experiencing a knowledge clash between the new and older generation. *“While the new generation has a much higher degree of skills and knowledge, the older generation is who holds the top positions of companies leading to difficult interactions amongst the age groups.”*

Besides the lack of technical accounting knowledge, all interviewees employed at EY identified the lack of Excel skills as a major issue in impacting the performance and quality of documents produced by accounting professionals. André mentioned that it is common to find erroneous Excel formulas that deem a whole file incorrect. Bicho explains that many people do not have computers at home, thus technical computer skills are very low and many times Excel has to be taught from scratch. She states: *“when we [expatriates] come to Angola, we know that we are committing to teach and work.”*

Pratas distinguishes between national and foreign entities, stating that employees of foreign entities tend to be more skillful and capable than those of national entities because of the extensive training programs and presence of expats that serve as instructors.

International firms play a significant role in the development of the Angola’s accounting professionals and system by association, by providing training and education to their workforces, and where applicable, consultancy services such as training and information sessions to clients.

Overall, interviewees expect the new government to bring changes to the Angolan accounting system as it tries to boost economic development, through commercial empowerment, giving entities

a greater say in accounting regulation thus, although it is operating as a CE system there is a shift toward the AS system. Education levels remain a barrier to the development and harmonization of Angola's accounting system. Much of the country still lives in poverty, and even those who obtain a university degree graduate with a low skillset, due to poor quality education and the inability to access to learning equipment, whether due to belonging to an underprivileged family or the inexistence of such tools. Education levels place the accounting system in the context of CE system, where as per Nobes (1998) accounting professions are weak in scope.

5.2 Levels of Analysis – Influential Factors

Taxation

The tax system in Angola is indirectly administered by the MOF through its power over the Angolan Tax Authorities (*Administração Geral Tributária*, AGT) which originated in December 2014, through the Presidential Decree No. 324/14¹³. It is an independent, legal body, responsible for tax collection, administration of the execution of Angolan tax code by applicable entities, proposing tax reforms and controlling the activity at the country's international borders (*Administração Geral Tributária* 2017). Law No. 19/14 presents the Angolan Corporate Income Tax Code (*Código do Imposto Industrial*, ITC) approved in October 2014 and in force for the years 2015 onwards. This is applicable to all industries excluding oil and gas, which due to its significance in the country, is particularly regulated by the Oil & Gas Tax Code (*Código de Tributação Petrolífera*) - Law No. 13/14. According to EY (2016), the Angolan government published Executive Decree No. 111/16, in March 2016, to establish a regime for reporting non-compliant taxpayers. As a result, the AGT was given the jurisdiction to prepare a quarterly list of institutions with fiscal irregularities and distribute the list to the National Bank of Angola (BNA) and the Ministry of Interior¹⁴ for consideration when

¹³ Arises from the merger of three entities - National Taxation Direction (*Direção Nacional de Impostos*), National Customs Agency (*Serviço Nacional de Alfândegas*) and Tax Reform (*Projeto Executivo para Reforma Tributária*).

¹⁴ Migration and Foreigners Service.

making decisions relevant to listed institutions. For example, entities in a non-compliant tax situation will be flagged and prevented from carrying out certain operations such as the import and export of goods, foreign payments for capital transactions or obtaining or renewing work visas for expatriates (EY 2016). The implementation of this regime demonstrates the importance of taxation to the government. Accordingly, the relationship between accounting and corporate taxation in Angola is strong as “taxable income is determined based on the accounting income declared in financial statements prepared in accordance to the PGCA and Accounting Plan for Financial Institutions and Insurance Companies (*Plano de Contas das Instituições Financeiras e Seguradoras*, CONTIF)” as per *article 12* of the Income Tax Code. According to Simões, this relationship has always been prominent as the standards prior to the PGCA served only to provide a tax basis for the state. She states that the PGCA was subsequently developed as an initiative funded by the World Bank, to encourage economic development by approaching Angolan accounting rules to International Accounting Standards effective at the time.

All interviewees indicated the government as the main user of financial statements, thus the AGT demonstrates a great concern in ensuring that companies report accurate figures in financial reports. Accordingly, the only sanction identified by interviewees to be effective in the accounting system, is a monetary fine for failing to submit to the AGT, the Model 1 tax report along with financial statements (audited if entity is a *Grande Contribuinte*), signed off by an OCPCA accountant, by March 31st. Further, Guerreiro has noticed that the decline of oil revenue has led to more strict control of tax reporting. He says that “*the AGT is increasingly prudent with entities and their tax responsibilities, enforcing mechanisms such as tax audits, monetary penalties and new regulations to ensure accurate tax collection.*” An example is Presidential Decree No. 147/13, established in 2013 to give rise to a list of size criteria upon which companies could be classified as *Grandes*

*Contribuintes*¹⁵. Under the decree, these are defined as entities with a significant weight in the total taxes collected by the AGT. Because of their relevance in the fiscal system, when the AGT was later formed in 2014, a division specific to *Grandes Contribuintes* was created to manage the technical aspects¹⁶ and the taxation of these entities. Further, the decree requires *Grandes Contribuintes* to present audited financial statements along with their tax report, an enforcement mechanism in place to ensure that the accounting income that serves as a basis for income tax calculation, is free of material misstatement. All interviewees agree that taxation is highly correlated with the accounting system thus, per Nobes (1998) criteria it is classified as a CE system.

Accounting and Audit Profession

Given the importance of accounting and audit activities in the economic development of Angola, Presidential Decree No. 232/10 established the creation of the Order of Accountants and Chartered Accountants of Angola (*Ordem dos Contabilistas e dos Peritos Contabilistas de Angola*, OCPCA). The OCPCA is the accounting body that regulates the accounting and audit profession. As per the decree, its mission is to promote and define ethical behavior, contribute to the education and professional development of members, define the norms and technical standards required to perform the profession and reprimand non-compliant members. Although it is an independent, legal entity, recognized as an official accounting body, in a case where Decree No. 232/10 fails to respond and there is no further legislation applicable, it becomes the responsibility of the Ministry of Finance to determine a solution. Thus, standard-setting for accounting and audit professionals ultimately lies within the jurisdiction of the government and is not controlled by the OCPCA.

The OCPCA gave way to two new accounting professions in Angola: the accountant (*contabilista*)

¹⁵ Big tax contributors.

¹⁶ These include studying the accounting norms that regulate the activity of each entity and updating the list of entities that fall within the criteria.

and the Chartered Accountant (*perito contabilista*) which are also governed by Decree No. 232/10. According to this, an accountant is responsible for bookkeeping, preparation of financial statements in accordance with the applicable GAAP¹⁷ and assuring the accounting basis for tax calculation is accurate. To become an accountant in Angola, the candidate must be of Angolan nationality or have permanent residency status and be native from a country that also accepts Angolan professionals under the same circumstances, possess the academic qualifications required, be 21 years of age, complete a practical experience period of two years and pass the final examination¹⁸. The Chartered Accountant's duties as per the decree consist of conducting law-mandated and optional audits and exercising all other functions attributed by law. They are also permitted to perform the work of an accountant, given that they must attain this qualification prior to becoming a Chartered Accountant. In addition to possessing the requirements of an Accountant, a Chartered Accountant must be 25 years of age, meet an education standard¹⁹, and complete a practical experience period of three years. Both Accountants and Chartered Accountants are held to the same disciplinary standards²⁰ however, none of the interviewees are aware of its practical application.

The accounting and audit profession is new to Angola, housing about 4,500 professionals of which fifty per cent are IFAC ready and fifty per cent still need to undergo a strong training process to become IFAC compliant, according to Santos. Simões, who was involved in the original discussions of the creation of the OCPCA in 1997, mentions the lack of qualified instructors needed to provide accounting professionals with required training to be a member of the OCPCA as a serious barrier to earlier implementation of the accounting body. As a result, the *Big 4* and the Order of Certified Accountants of Portugal (OCC) were called to provide training to Angolan accountants permitting

¹⁷ Generally Accepted Accounting Principles.

¹⁸ Article 45 of Presidential Decree No. 232/10.

¹⁹ Idem, Article 77.

²⁰ Idem, Article 88.

the launch of the body in 2010. As Simões notes, the pace of development in Angola is very slow because of both their passive culture and the limitations arising from lack of advancement-permitting conditions. Under Nobes classification criteria Angola's underdeveloped professional accounting body is classified as a CE system.

Legal System

Accounting regulation in a country is influenced by its general system of laws. In Angola, the accounting system is governed by commercial law, with no other rules or standards existent.

There are three accounting standards, governed by law, in force in Angola – the PGCA, IFRS and CONTIF. The PGCA, applies to commercial and public entities. It is overseen by the Ministry of Finance, the regulating government body for commercial, industrial and public entities. The National Bank of Angola (*Banco Nacional de Angola*, BNA) regulates and supervises the banking industry activity, while the Angolan Agency for Regulation and Supervision of Insurance (*Agência Angolana de Regulação e Supervisão de Seguros*, ARSEG) regulates the insurance companies and pension funds. With the aim to increase international comparability of Angolan financial institutions, the banking industry is currently in transition from the domestic CONTIF to IFRS while all other financial and insurance institutions remain in applying CONTIF. As per *Aviso* No. 06/2016 banks are to have completed full transition to IFRS by the end of fiscal year 2017. Failure to comply with the adoption will result in severe sanctions established in the Financial Institutions Law No. 12/15. Further, as analyzed in section 5.2 the income tax codes are governed by Law. The National Direction for Public Accounting (*Direcção Nacional de Contabilidade Pública*, DNCP) is the organism of the MOF responsible for the accounting system of the state and public sector. André indicates that in the four years he practiced audit in Angola, the presence of the DNCP was not felt. He concludes that “*it is a dormant body in accounting regulation considering that Angola has only private enterprises that are regulated directly by the MOF as there is no accounting standard-setting*

institution in Angola.” The creation of an accounting standards committee (*Comissão de Normalização Contabilística*, CNC)²¹ has been under discussion since 2016, however its implementation has not yet been seen. All interviewees agree that accounting rules are ultimately decided by the government, through the MOF. More recently, the OCPCA has played an active role in providing recommendations for better accounting practices –a role that falls out of the scope of their duties. André indicates the OCPCA as being:

“A driver for what is happening and what is going to happen in terms of training and how the PGCA is applied – identifying the situations where the PGCA is insufficient in today’s world. [...] The OCPCA consists of the Big 4 and the best informed people in Angola. Those people will push for better rules and IFRS is the standard being pushed for.”

On September 21, 2017 an article written by the President of the OCPCA, Jaime Bastos, mentioned the lack of a CNC as an obstacle in attracting foreign investments. He called out to the MOF, to implement the CNC and provided a working constitution for the creation of the accounting body, demonstrating that accounting professionals begin to have an impact in shaping Angola’s accounting system (Bastos 2017). As André mentions, the drivers of Angola’s accounting regulation are the OCPCA and the AGT due to its pressure to increase tax revenue for the state. Although external influences are present, indicating a shift to a common law AS system, ultimately, accounting regulation is established in law by the MOF. Thus, Angola identifies with Nobes (2016) codified Roman law system, classifying its legal system as a CE system.

Sources of Capital

The stock market in Angola is relatively new to this landscape, having officially opened on November 15, 2016. Securities and derivative instruments are exchanged on the *Bolsa de Dívida e Valores de Angola* (BODIVA) whose vision is to manage a fully operational capital market from which entities can finance their activities and earn a return on capital invested (BODIVA 2017). Regulation of the

²¹ Accounting body for creation and enforcement of accounting rules.

market lies within the scope of power of the Capital Markets Commission (*Comissão de Mercado de Capitais*, CMC)²², a member of the International Organization of Securities Commissions (IOSCO) since August 2017²³. Although it is legally autonomous in its administration, finances and property, the CMC is subject to oversight from the President of the Republic and remains within the jurisdiction of the MOF. As per Presidential Decree No. 54/13 of June 2013 (an organic statute), the CMC's mission is to regulate, supervise, study and promote BODIVA which is governed by the securities and derivative instruments code (*Código de Valores Mobiliários*, codVM). This law is controlled by the CMC who monitors the compliance of all parties in the capital markets and is responsible for protecting the interest of investors by implementing risk management mechanisms to prevent systematic risk (CMC Angola 2016). *Article 11*, has no mention of a general accounting standard for traded entities. Instead, there is mention that CMC, together with the BNA and ARSEG can define rules, in accordance to international standards, to regulate the economic and financial information presented by governed entities and the respective audit rules. Accordingly, in July 2015, the CMC approved the *Plano de Contas das Instituições Financeiras não Bancárias*, an accounting plan for financial institutions, excluding banks, subject to their supervision. This plan is applicable only in the scope of the capital market. Financial reporting to the government must remain compliant with CONTIF. Interestingly, there was no mention of the CMC's regulation in interviews and considering only banks are currently traded on BODIVA, this regulation is not in use. Again, external influences are seen influencing accounting regulation in Angola as a result of commercial needs.

All interviewees conclude that debt financing is the main source of capital in Angola. As André mentioned, the driver for the adoption of IFRS in the banking system is the need to finance the

²³ IOSCO is an international body of securities regulators that set global standards for capital markets.

financial system with international loans to fund the growth of companies in Angola. In accordance to Nobes classification criteria, Angola's weak equity, debt-driven market delineates a CE system.

International Influences

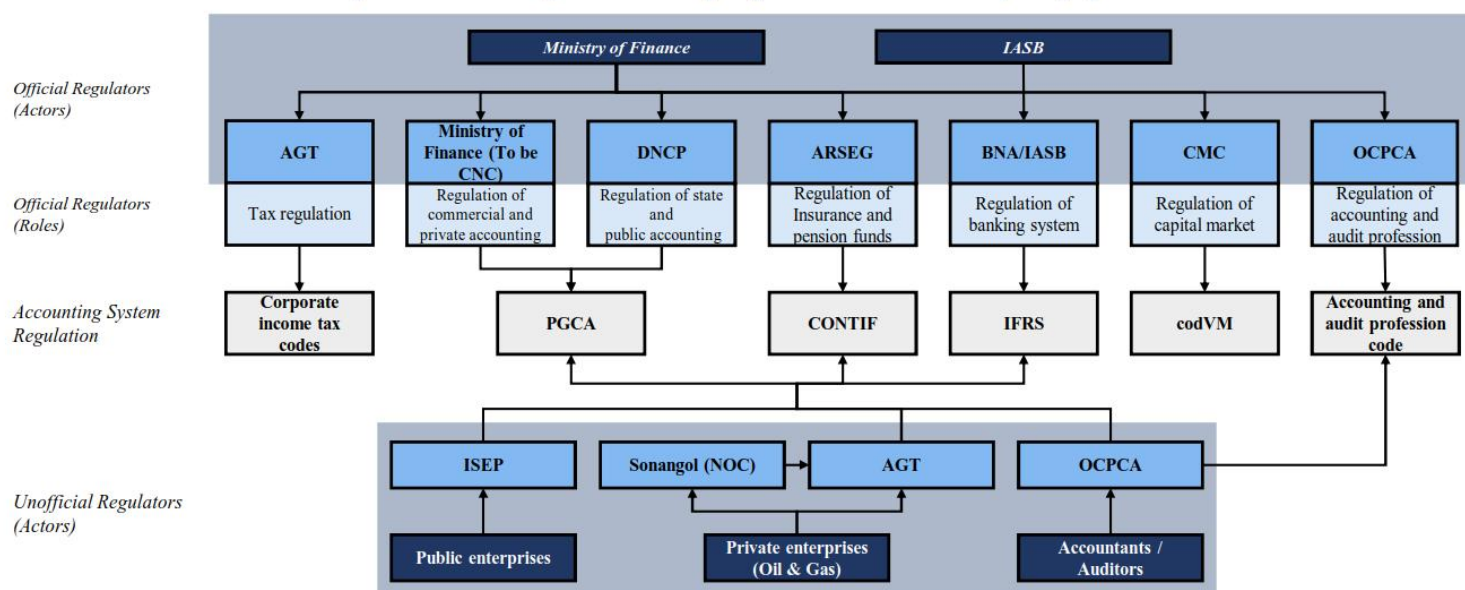
As stated by Nobes and Parker (2008: 38), *“when looking at countries that are strongly culturally influenced from elsewhere, the best predictor of the accounting system may be that it will be like that of the former colonial power.”* They further argue that cultural influences individually, possess a stronger correlation to the formation of the accounting system than all other factors together, given that former colonies may inherit legal systems, equity markets and accounting professions.

If we consider the history of Angola, we can conclude that it has been heavily influenced by Portugal, despite slight influences from Cuba and the USSR arising from political affairs. Having been a colony of Portugal for over 500 years, the country's foundation shares many similarities (Thorton and Clarence-Smith 2017). Simões informs of a comparative legal system, given that accounting rules were developed alongside Portuguese professionals and are based on Portuguese accounting rules. Santos, explains that *“almost all and everything...from the laws to the software being sold and used in Angola”* has Portuguese influences. Almeida mentions that teaching materials are bought from Portugal and inclusively, many teachers are from Portugal. Further, the *Big 4* audit firms present in Angola are all controlled by the respective management of such firms in Portugal and are staffed largely by Portuguese expats and project based fly-ins. For example, thirty percent of staff at EY Angola are Portuguese expatriates who have studied in Portugal. Thus, Angola's accounting system is highly correlated with Portugal, which Nobes' (2008) has classified as a CE system. By means of cultural influence, Angola should also be classified as a CE system.

5.3 The Real Picture

The contextual elements and levels of analysis generated a model to describe the Angolan accounting regulation and financial reporting system (Figure 1). Two sets of actors were identified: the official and unofficial regulators. The official regulators are the government driven entities that regulate the accounting rules endorsed by the MOF via Law. Unofficial regulators are the commercially driven entities that pressure the official regulators into altering the accounting rules based on business needs. The accounting system regulation is the point of intersection for both regulators as they attempt to make changes to the rules in force. This research provides evidence for a classification of Angola's accounting system in Nobes (2008) CE system²⁴, although a shift toward an AS system is emerging in the accounting and audit profession and legal system.

Figure 1: Model of Angola's Accounting Regulation and Financial Reporting System



6. Conclusion

This Work Project aimed to characterize the accounting regulation and financial reporting system in Angola and subsequently classify it in Nobes' (2008) two-group framework through an analysis of contextual elements such as political and economic ties and education, taxation, accounting and

²⁴ See Appendix 9 for a scale evaluation built for the classification, using Nobes judgemental criteria.

audit profession, legal system, sources of capital and international influences. The main findings were the presence of both official and unofficial regulatory forces in the development of the accounting system. Official actors are controlled by the MOF who endorses accounting regulation through commercial law, thus classifying Angola as a civil law system characteristic of a CE system. Unofficial actors from commercial activity such as Sonangol have a tremendous impact in tax revenue therefore their interests become the interest of the government when designing changes to the accounting system. Enforcement of accounting standards is prevalent only in the scope of tax collection where monetary penalties are applied for late and inaccurate submission of financial results. Lastly, Angola's small sized and underqualified accounting labour force is a significant barrier to the implementation of IFRS. This coupled with the prevalent poverty and passive work culture indicates that harmonization of accounting standards is distant. In accordance with the influential factors analyzed, Angola's accounting system is classified as a CE system under Nobes (2008) framework.

Limitations encountered by the researcher included a very scarce amount of data available. Existing data was difficult to access as government websites were slow and many times offline due to errors and crashes. Considering the limited empirical data available, a high number of governmental documents and legislation, all in Portuguese, had to be read and translated by the researcher.

The worldwide harmonization of financial reporting arose as an accounting response to the integration of world capital markets. With the recent development of the capital market in Angola, research on the accounting impact of a transition from PGCA to IFRS in Angolan companies and the country as a whole, is of great interest. An investigation into the obstacles in implementing IFRS will be valuable during the adoption phase and can serve as comparative studies for harmonization of other African countries. Given the difficulty to mine, accounting research in Africa is invaluable.

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